

Ebdaa Bank

Corporate Governance Policy

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Background and Scope

1.1 Background

This policy is to establish standards for defining and monitoring corporate governance of Ebdaa Bank in line with the Central Bank of Bahrain and Ministry of Industry and Commerce Corporate Governance and subsequent amendments by CBB to avoid any corporate failure and to ensure consistency and transparency across business and shareholders.

The purpose of this policy is to ensure a conceptually sound Corporate Governance framework for Ebdaa Bank, which is implemented with integrity in accordance with the regulatory environment.

The corporate governance framework is outlined with the purpose to promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The following are the guiding principles for corporate governance policy:

The Corporate Governance at Ebdaa Bank will help guide the Bank in its businesses and affairs in the following areas:

- Set corporate objectives
- consider the interests of stakeholders
- align corporate activities and behavior with the expectation that bank will operate in a safe and sound manner, and in compliance with applicable laws and regulations
- Develop a well-articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals to the board of directors can be gauged
- the clear assignment of responsibilities and decision-making authorities, incorporating a hierarchy of required approvals from individuals to the board of directors
- establishment of a mechanism for the interaction and cooperation among the board of directors, senior management and the auditors
- strong internal control systems, including internal and external audit functions, risk management functions independent of business lines, and other checks and balances
- special monitoring of risk exposures where conflicts of interest are likely to be particularly great.

- Appropriate information flows internally and to the public

The ethical aspects of corporate governance are covered in the Code of Conduct (Annexure1) and should be read in conjunction with this policy.

This policy documents has been framed in accordance with:

- Central Bank of Bahrain Regulations
- Kingdom of Bahrain Corporate Governance principles
- Bahrain Commercial Companies Law

All the instructions and guidelines ruling from time to time by CBB and the applicable laws are considered to be part of this corporate governance policy.

1.2 Scope

The Corporate Governance policy aims at the following:

- To develop a comprehensive and sound framework for Corporate Governance
- Ensure clear assignment of Roles and Responsibilities
- Ensure transparency across business units
- Ensure that the disclosure are timely and in line with the regulations by CBB

2 Corporate Governance Structure at Ebdaa Bank

The Bank has adopted the following principle to ensure best practices in corporate governance and the commercial companies law:

- Board Members are qualified for their positions and have a clear understanding of their roles in corporate governance.
- Ebdaa bank's strategic objectives and corporate values are approved by the Board of Directors (BoD)
- Clear lines of responsibility and accountability are set throughout the organization by the BoD
- BoD ensures proper oversight by senior management
- The BoD and senior management effectively utilize work conducted by internal and external auditors

- BoD ensures that the Bank's compensation policies and practices are consistent with the Bank's culture, long term objectives and strategy, and control environment
- The governance of the Bank is conducted in a transparent manner

2.1 Board of Directors

2.1.1 Structure

BoD shall be formed as stated in the Articles of Association Ebdaa Bank.

2.1.2 Roles and Responsibilities

The Board of Directors are collectively and individually responsible for achievement of the corporate objectives of the bank and to ensure that bank functioning does not contravene any legal or regulatory requirements. The Board is also responsible to ensure that the Senior Management and other staff of the bank functions effectively under its supervision and control. Specifically, following are the roles and responsibilities of the Board of directors: -

- The adoption and annual review of strategy.
- The adoption and review of management structure and responsibilities.
- The adoption and review of the systems and controls framework.
- Monitoring the implementation of strategy by management.
- Determining acceptable levels of risk.
- Causing financial statements to be prepared which accurately disclose the conventional bank licensee's financial position.
- Reviewing the banks business plans and the inherent level of risk in the plans.
- Assessing the adequacy of capital to support the business risk of the bank.
- Setting performance objectives.
- Reviewing the performance of executive management.
- Overseeing major capital expenditure, divestitures and acquisition.
- Ensuring that training is provided to the Board members periodically. The chairman of the Board must ensure that each new director receives a formal and

tailored induction to ensure his contribution to the board from the beginning of the term.

- All continuing directors must be invited to attend orientation meetings and all directors must educate themselves as to the bank licensee's business and corporate governance.
- The Board should have effective policies and processes in place for:
 - (a) Approving budgets and reviewing performance against those budgets and key performance indicators; and
 - (b) The management of the bank's compliance risk.
- Appointing senior managers having necessary integrity, technical, managerial competence, and experience.
- Overseeing succession planning and replacing key executive when necessary, and ensuring appropriate resource are available, and minimizing reliance on key individuals.
- Reviewing the remuneration and incentive packages of the Chief Executive Officer.
- Approving the Yearly Compensation Program as prepared and presented by Human Capital in accordance with the corporate values and strategy of the bank.
- Effectively monitoring and making formal (annual) evaluations of senior managements performance in implementing agreed strategy and business plans.
- Approving budgets and reviewing performance against those budgets and key performance indicators.
- Executive directors must provide the board with all relevant business and financial information within their cognizance, and must recognise that their role as a director is different from their role as a member of management.
- Non-executive directors must be fully independent of management and must constructively scrutinise and challenge management including the management performance of executive directors.
- The board must adopt a formal board charter or other statement specifying matters which are reserved to it, which should include but need not be limited to the specific requirements and responsibilities of directors.

2.1.3 Method of Decision Making:

- Meetings: the board will usually make its decisions in the meeting.

- Resolution by Circulation: Resolutions may be made by circulation of proposal/ matter for approval. Further, all members should receive and sign the resolution whether they approve, dis-approve or abstain. Resolutions by circulation must be with consensus of the whole Board members.
- Decision making rule: Decisions at meetings are normally by consensus of majority of members.

2.1.4 Managing Conflict of Interests:

- Conflicts of interest, whether of an actual or potential nature, and whether involving a member's personal or business affairs, shall be promptly and fully disclosed. In the event that a member becomes aware of a conflict of interest associated with a particular issue facing the Board, the Member must immediately disclose it to the Board, as required. Members considering taking on a material interest which might present, or might be perceived as presenting, some risk of conflict with their role as a Board member shall consult the Chairman before committing themselves.
- Special monitoring of risk exposures where conflicts of interest are involved, including business relationships with borrowers affiliated with the bank, large shareholders, senior management, or key decisions-makers with the Bank.
- The board should establish formal procedures for:
 - (a) Periodic disclosure and updating of information by each approved person on his actual and potential conflicts of interest; and
 - (b) Advance approval by directors or shareholders who do not have an interest in the transactions in which a conventional bank licensee's approved person has a personal interest. The board should require such advance approval in every case.
- The bank must disclose in the Annual Report any abstention from voting motivated by a conflict of interest and must disclose any authorisation of a conflict of interest contract or transaction in accordance with the Company Law.

2.1.5 Risk Recognition and Assessment

The board is responsible for ensuring that the systems and controls framework, including the Board structure and organizational structure of the bank is appropriate for the bank's business and associated risks. The Board must ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the bank is exposed in its business activities.

The Board has to ensure:

- System controls and framework are measured, monitored and controlled by appropriate effective and prudent risk management system commensurate with the bank's activities
- The compliance, risk management and financial reporting functions are adequately resourced, independent of business lines and run by individuals not involved with the day-to-day running of the various business areas. The Board must additionally ensure that management develops, implements, and oversees the effectiveness of comprehensive "Know Your Customer" standards, as well as ongoing monitoring of accounts and transactions in keeping with the requirements of relevant law, regulations best practice (with particular regard to anti-money laundering measures). The control environment should maintain necessary client confidentiality and ensure that the privacy of the bank is not violated, and that client's rights and assets are properly safeguarded.
- The work of internal and external auditors is effectively used
- Significant issues related to the bank's adopted governance framework, processes and practices are identified. Appropriate and timely action is taken to address any adverse deviations from this Policy.

Whenever a director has serious concerns which cannot be resolved concerning the running of the conventional bank licensee or a proposed action, he should consider:

- a) seeking independent advice and
- b) should ensure that the concerns are recorded in the board minutes and that any dissent from a board action is noted or delivered in writing.

Upon resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if he has any concerns such as those stated above.

2.1.6 Meetings:

The Board must meet at least four times in a year

2.1.7 Attendance

Individual board members should attend at least 75% of all board meetings in a given year to enable the board to discharge its responsibilities effectively.

In the event that a Board member has not attended at least 75% of Board meetings in any given financial year, the bank must immediately notify the CBB indicating which member has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance. Attendance proxies for board meeting are prohibited at all times.

Participation in board meetings by means of video or telephone conferencing is regarded as attendance and may be recorded as such.

Furthermore, Board rules should require members to step down if they are not actively participating in Board meetings. Board members are reminded that non attendance at board meetings does not absolve them of their responsibilities as directors. It is important that each individual director should allocate adequate time and effort to discharge his responsibilities. All directors are expected to contribute actively to the work of the Board in order to discharge their responsibilities and should make every effort to attend board meetings where major issues are to be discussed.

For disclosure in the Bank's annual report the number of board and board committee meetings held during each year as well as the attendance of every Board member at these meetings.

2.1.8 Evaluation of the Board and Each Committee

At least annually, the board must conduct an evaluation of its performance and the performance of each committee and each individual director.

The evaluation process must include:

- (a) Assessing how the board operates, especially in light of Chapter HC-1 of CBB rulebook;
- (b) Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee;
- (c) Reviewing each director's work, his attendance at board and committee meetings, and his constructive involvement in discussions and decision making;
- (d) Reviewing the board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the board.

Members of the Board of Directors are evaluated by the Chairman of the Board. The Chairman may use the assistance of an External Statutory Auditor if it deems necessary.

2.2 Corporate Secretary

2.2.1 Role

The role of the corporate secretary is to administer the affairs of the company and manage the business of the board. The corporate secretary is considered to be the chief governance specialist within the bank in addition to its legal responsibilities which varies according to the needs of the bank. The corporate secretary should be given general responsibility for reviewing the conventional bank licensee's procedures and advising the board directly on

such matters (as per Rule HC-6.3.2(c) of CBB rulebook). Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.

2.2.2 Duties

The duties of a corporate secretary include:

- Managing Board processes – Board and Committee papers and circulation of agendas, minutes, discussion papers, proposals for the board and its committees;
- To send via email all board meetings minutes to board;
- To note in the meeting minutes the attendance and the absence of board members if it was excused or not excused;
- Ensuring members' and directors' meetings are properly called and held;
- Ensuring records of members' and directors' meetings are kept in compliance with the Commercial Companies Law and the Articles of Association of the Bank; Ensuring regulatory compliance with the CBB including continuous disclosure;
- Providing advice to directors regarding the Commercial Companies Law, CBB requirements and other regulatory requests;
- Advising the board on good practice in corporate governance, e.g. giving guidance on the implications of the way it discharges its duties, runs meetings, makes decisions, etc;
- Promoting the compliance framework to safeguard the integrity of the organization;
- Counseling the board on standards of ethical and corporate behavior;
- Ensuring the board has the information it needs to make informed decisions;
- Organizing board performance reviews;
- Involvement in risk management and corporate responsibility matters;
- Policy formulation for the board;
- Organizing Board Members insurance;
- Ensuring the annual report is compiled and distributed to shareholders;
- Ensure that the concerns are recorded in the board minutes and that any dissent from a board action is noted or delivered in writing.

2.2.3 Reporting

The corporate secretary reports to the Chairman of the Board and the Chief Executive Officer of the Bank.

2.3 Islamic Banking

All products offered by the Bank are in compliance with Sharia principles (as per the Sharia Supervisory Board) & CBB regulations.

2.4 Board Level Committees

2.4.1 Audit Committee

Ebdaa Bank should have an Audit Committee. The committee members must have sufficient technical expertise to enable the committee to perform its functions effectively. There should be at least one qualified and appropriately experienced accountant in the committee. All members of the committee must be financially literate.

2.4.1.1 Roles and Responsibilities

The detailed roles and responsibilities of the Audit Committee are to be framed by the relevant Committee and should be approved by the Board of Directors. Subsequently, the Terms of Reference (Annexure 2) are to be reviewed, as and when the need arises or on an annual basis.

2.4.2 Remuneration, Nomination and Corporate Governance Committee.

The Ebdaa Bank should have Remuneration, Nomination and Corporate Governance Committee to consider the human resources policies and procedure for the bank and the remuneration policy for senior executives whose appointment requires Board approval, and to consider the compliance with the corporate governance policy and updating it from time to time as the CBB instructions.

2.4.2.1 Roles and Responsibilities

The detailed roles and responsibilities of the Remuneration, Nomination and Corporate Governance Committee are to be framed by the relevant Committee and should be approved by the Board of Directors. Subsequently, the Terms of Reference (Annexure 3) are to be reviewed, as and when the need arises or on an annual basis.

2.5 Administrative Matters of the Board Committee

The Board of Directors has constituted various committees to assist it in the discharge of its functions.

These committees will, unless specified otherwise have a common structure and administrative procedure for handling meetings and per details given the Annexure 4.

2.6 Management Level Committees

The bank may form as many Management Level Committees as the smooth work requires to assist the Board Committees and the bank management to perform its duties and responsibilities. The detailed roles and responsibilities each Management Level Committees are to be framed by the relevant Committee and should be approved by the Board of Directors.

3 Organization Structure

Ebdaa Bank shall have Organization Structure clearly define the main departments, senior management, their duties, functions and reporting line. The Organization Structure and any amendments should be approved by the Board of Directors.

4 Transparency and Disclosure

4.1 Boards Responsibility for Disclosure

The Board should oversee the process of disclosure and communications with internal and external stakeholders. Disclosure policies must be reviewed for compliance with disclosure requirements.

4.2 Notification and Reporting

Ebdaa Bank must notify the Central Bank of Bahrain (CBB) in writing of all major proposed changes to the strategy and/or corporate plan of the bank prior to implementation.

Banks must also notify the CBB in writing of any proposed changes to senior position or ownership changes prior to the change. The communication should also include the reason for the departure of the personnel and the Curriculum Vitae of any new persons taking up the relevant positions in the bank.

4.3 Changes of Activities

Ebdaa bank should obtain the Central Bank of Bahrain (CBB) prior specific written approval before establishing any subsidiaries. In order to avoid any delays or disruption in

implementation of the bank plan in this context, the Central Bank of Bahrain should be approached as soon as possible, even at a very preliminary stage.

4.4 Meeting Report

The bank is required to submit, on an annual basis, as attachment to the year-end quarterly PIR, a report recording the meetings during the year by their Board Directors.

Annexure 1

Code of Conduct for Ebdaa Bank Board Members

Preamble

The powers and duties of members of the Ebdaa Bank Board are set out in the Articles of Association (hereinafter referred to as the “Articles”). In pursuing the Ebdaa Bank’s goals, board members recognize their responsibility for maintaining an unparalleled reputation for integrity and propriety in all respects and they agree to adhere to this Code of Conduct. The High Level Controls as required in the Central Bank of Bahrain Rulebook and the laws of Bahrain are to be abided and form an integral part of this Code of Conduct.

General Principles

Members shall observe the highest possible standards of ethical conduct. They will avoid any action, or inaction, which could in any way impair Ebdaa’s capacity to carry out its duties, or compromise its standing in the community and its reputation for integrity, fairness, honesty and independence.

Board Function

The board is ultimately accountable and responsible for the affairs and performance of the bank. The board must establish the objectives of the bank and develop the strategies that direct the ongoing activities of the bank to achieve their objectives. The strategy should be communicated through the bank and be disclosed to shareholders. The board must demonstrate that it is able to proactively identify and understand the significant risks that the Bank faces in achieving its business objectives through its business strategies and plans.

Legal Requirements

Members must by law meet the general obligations of directors of statutory authorities, as set out in the The Commercial Companies Law – Decree # 21 of 2001’ (hereinafter referred to as the “Companies Law”) and the Implementing Regulations of the Commercial Companies Law – Ministerial Order No. 6 of 2002 (hereinafter referred to as the “Implementing Regulations”). The directors must:

- Discharge their duties with care and diligence; Act in good faith, and in the best interests of Ebdaa Bank.
- Not use their position to benefit themselves or any other person, or to cause detriment to Ebdaa Bank or any person.
- Not use any information obtained by virtue of their position to benefit themselves or any other person, or to cause detriment to Ebdaa Bank or any person; and

Declare any material personal interest where a conflict arises with the interests of Ebdaa Bank.

- Not have been previously convicted of any crime or have been declared bankrupt.

On appointment, each member signs the Code which constitutes a Declaration of Confidentiality. This commits members to maintain confidentiality in relation to the affairs of the Board and Ebdaa Bank. They promise not to divulge any information in any way except as agreed by the Board or under compulsion or obligation by law. They must not use company information or take advantage of business opportunities to which the company is entitled for himself or his associates. The declaration forms part of this Code.

Application

Taking as given that members are bound by the provisions of the Companies Law and Implementing Regulations and the Declaration of Confidentiality as above, this Code further provides that members will observe the following:

1. **The confidentiality of information** – including the Board materials, and discussions at the Board meetings – must be strictly maintained, including after members have left the Board. Members shall also avoid any situation where they might be perceived as having acted with the benefit of knowledge not available to the general market place.
2. **Conflicts of interest**, whether of an actual or potential nature, and whether involving a member's personal or business affairs, shall be promptly and fully disclosed in writing which should be updated renewed on an Annual Basis in writing. In the event that a member becomes aware of a conflict of interest associated with a particular issue facing the Board, the Member must immediately disclose it to the Board, as required. Members considering taking on a material interest which might present, or might be perceived as presenting, some risk of conflict with their role as a Board member shall consult the Chairman before committing themselves and should be formally and unanimously approved by the full Board. Any Board member with a conflict of interest shall absent themselves from any discussion or decision making that involves a subject where they are incapable of providing objective advice, or which involves a subject or proposed transaction.
3. Members shall take great care in financial transactions for personal account. Members shall not use information gained in their activities as a Board member and not generally available to the market place, for purposes of carrying out private financial transactions, whether directly or indirectly via third parties, or for the account of a third party.

4. In order to avoid any possibility of perceived conflicts that could damage the Bank's reputation, members shall exercise due care in accepting from third parties entertainment, travel or accommodation, or any other benefit which is offered solely or mainly on the basis of membership of the Board.
5. All Directors whether non-executive or executive should exercise independence in their decision making. To facilitate independence, the Board should agree procedures whereby the Board or its individual members (or committees) may take independent professional advice at the bank's expense.
6. Where questions of interpretation of this Code arise, members shall consult with the Chairman. Where issues arise which cannot be specifically foreseen in this Code, members shall be expected to exercise sound judgment and behaviors consistent with the General Principles outlined above. Members shall, where appropriate, consult with the Chairman and, if necessary, the Governor of the Central Bank of Bahrain.

Annexure 2

Audit Committee - Terms of Reference

1. Membership

The Committee shall comprise of three directors; the majority of the members should be independent and/or non-executive directors. Such members must have no conflict of interest with any other duties they have for the bank. The CEO must not be a member of the committee

The Chairman of the Committee shall be appointed by the committee

The Committee members must have sufficient technical expertise to enable the committee to perform its functions effectively. Technical expertise means that members must have recent and relevant financial ability and experience such as ability to read financial statements and understanding of accounting principles. There must be at least one qualified and appropriately experienced accountant in the committee.

2. Voting rights

- 2.1 All decisions of the Committee will be based on a simple majority of the members present at the meeting. In the event of a tie, the Committee Chairman or in his absence, the acting chairman will have the casting vote.
- 2.2 No Committee member shall vote or participate in a determination of any matter in which the member shall or may receive a special private gain. Committee members have a duty of loyalty that precludes them from being influenced by motives other than the accomplishment of the purposes of the Committee.
- 2.3 Any attendee who is not a member of the Committee will not vote on any matter coming before the committee for a vote.
- 2.4 Resolution by Circulation: Resolutions may be made by circulation of proposal/matter for approval. Further, all members should receive and sign the resolution whether they approve, dis-approve or abstain. Resolutions by circulation must be with consensus of the whole committee members.

3. Meetings and Quorum

The Committee may meet without any other director or any officer of the bank present. The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objectives.

The Committee shall meet with such frequency and at such times as it may determine. However, it shall meet at least four times a year.

The committee must meet with the external auditor at least twice per year, one of which in the absence of any members of executive management.

4. Objective

- 4.1. The committee shall assist the Board to ensure that the bank has rigorous controls for financial audit and reporting, internal control, and compliance with applicable law.
- 4.2. The Committee shall act as the oversight function on behalf of the Bank's Board of Directors in respect of those activities throughout the Group that give rise to credit, market, liquidity, interest rate, operational or reputational risk.

The committee shall perform and report to the board an annual self performance evaluation of the committee as a company and individual members of the committee, which shall compare the committee's performance with its Objectives and Responsibilities and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter or composition. The report may be in the form of an oral report made at any regularly scheduled board meeting.

The committee shall report regularly to the full board on its activities.

5. Committee Resources and Authorities

The committee shall have unrestricted access to all reports, documents, information, individuals as it seems necessary in performing its responsibilities.

The committee is authorized by the Board of directors to engage, select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the board or management.

The committee is authorized by the Board to engage bank's senior management to assist the audit committee in the oversight of risk management.

6. Responsibilities of the Committee

Without limiting the generality of the Committee's objective, the Committee shall have the following duties and responsibilities.

6.1. Financial Reporting and Disclosure

- 6.1.1. Review and discuss with management and/or the external auditor each annual and each quarterly financial statements of the bank during formal meeting if possible. However, if such meeting is not possible in the recommended date, and to avoid any delay in approving and publishing the financial statements, it is permissible to review and recommend the financials by circulation, and provide recommendations to the board on the approval of the same. the Committee shall focus particularly on:

- (i) Integrity of the financial statements of the bank.
- (ii) Reviewing the accounting and financial policies and practices and the changes in those policies and practices;
- (iii) Major judgmental areas;
- (iv) Significant adjustments resulting from the audit;
- (v) The going concern assumptions and any audit qualifications;

- 6.1.2. The Committee Shall obtain from the Chief Executive Officer and the Chief financial officer a written statement that the interim and annual financial statements present a true and fair view, in all material respects, of the bank's financial condition and results of operations in accordance with applicable accounting standards. This statement should be also presented to the Full board of directors
- 6.1.3. Review and discuss possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters;

6.2. Internal Audit

- 6.2.1. The committee must set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.
- 6.2.2. To monitor and review the activities and performance of the internal audit function, consider the major findings raised in the internal audit reports and management's response, resolve any dispute between the internal audit and management. and ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank and is free from constraint by management or other restrictions. The Committee shall approve the appointment and removal of the head of internal audit and approve the budget allocated to the internal audit

6.3. External Auditor

- 6.3.1. To make recommendations to the Board, for the appointment, re-appointment and termination of the external auditor and to approve the remuneration and terms of engagement of the external auditor. The external auditor shall report directly to the committee.
- 6.3.2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process at least once every year, taking into consideration relevant professional and regulatory requirements, and to oversee the appropriate rotation of audit partners with the external auditor.
- 6.3.3. To develop and implement policy on the engagement of the external auditor to supply non-audit services, specifying the types of non-audit services which are permissible and does not compromised the eternal auditor's independence. For this purpose "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm.
- 6.3.4. Obtaining from the external auditor on annual basis a written report listing any relationships between the external auditor and the conventional bank

licensee or with any other person or entity that may compromise the auditor's independence

- 6.3.5. Review and discuss with the external auditor the scope and results of its audit, any difficulties the auditor encountered including any restrictions on its access to requested information and any disagreements or difficulties encountered with management; and any other matters the external auditor may wish to discuss (in the absence of management where necessary).

6.4. Internal Control

- 6.4.1. The committee shall ensure that senior management have put in place appropriate systems of control for the business of the bank and the information needs of the Board; in particular, there must be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of the bank, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.
- 6.4.2. Review and discuss the activities, performance and adequacy of the bank's internal controls and compliance procedures, and any risk management systems, and changes in those.
- 6.4.3. Review and discuss the findings of the audit/examination/investigation reports issued by the internal auditor, external auditor and regulatory bodies, and issue the required resolutions and/or recommendations. Audit findings must be used as an independent check on the information received from management about bank's operations and performance and the effectiveness of internal controls.
- 6.4.4. Report to the board or board's sub-committees, identifying any matters related to risks and controls in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

6.5. Risk Management

- 6.5.1. Review the Bank's development of tools and structures to monitor the Bank's risks, including credit, market, operational and other risks and exposures
- 6.5.2. Review that management has established procedures for all the operations and activities of the group as also to evaluate the adequacy and effectiveness of the Bank's procedures and systems for ensuring compliance with risk management principles and internal policies.
- 6.5.3. Review all applicable policies relating to Risk management
- 6.5.4. Review the credit risk of the group including country risk, financial institution risk, bank limits, large exposure, provisions, provisioning policies and off balance sheet risks (OBSI). Review the market, interest rate, liquidity, legal, compliance, insurance risks of the group.
- 6.5.5. Review other risks and issues as appropriate e.g. portfolio issues, policy issues, process issues. In doing so, review the sensitivity/sustainability based on changes to variables, scenarios etc.

- 6.5.6. Review the adequacy and effectiveness of the organization's economic and regulatory risk capital management framework including its methodologies, policies, and resources.

6.6. Compliance Matters

- 6.6.1. Oversee the bank's compliance with applicable legal, regulatory and financial requirements, codes and business practices, and ensure that the bank communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form.
- 6.6.2. To review and supervise the implementation of, enforcement of and adherence to the bank's code of conduct.
- 6.6.3. To ensure adherence with ethics values as defined in the governance standards issued by AAOIFI, this includes values such as professional competence and diligence, trustworthiness, objectivity, etc.
- 6.6.4. Review the use of restricted investment accounts' funds in co-ordination with the internal Shari'a reviewers and external auditors.

6.7. Other Matters

- 6.7.1. To undertake or consider on behalf of the Chairman of the Board of directors such other related tasks or topics as the Chairman of the Board may from time to time entrust to it.
- 6.7.2. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.
- 6.7.3. The committee should adopt a "whistleblower" program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the program, concerns may be communicated directly to the Audit Committee.
- 6.7.4. In its review of the systems and controls framework, the committee might make use of different reports and sources of information such as audit reports, self-assessments, stress/scenario tests, liquidity reports, and/or independent judgments made by external advisors.
- 6.7.5. In case there are any contradiction between this Term of reference and the "Administrative matter of the board committees" section of bank's corporate governance policy, "Audit committee Terms of Reference" shall prevail.

Annexure 3

Remuneration, Nomination and Corporate Governance Committee - Terms of reference

Membership

The Committee shall comprise not less than three independent non-executive directors.

The Chairman of the Committee shall be appointed by the Board.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

The Committee shall be supported by the Chief Executive Officer , Human Capital and by the Committee Secretary who shall produce such papers and minutes of the Committee's meetings as are appropriate and circulate them to all members of the Committee.

The Committee is authorized by the Board to obtain such legal, remuneration or other professional advice as it shall deem appropriate and shall be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference of remuneration consultants to advise it on all aspects of remuneration.

Meetings and Quorum

The Committee shall meet with such frequency as it may consider appropriate. It is expected that the Committee shall meet at least two times each year. The Chairman of the Committee or in his absence another member of the Committee, shall give an written report to the Board after each meeting.

The quorum for meetings of the Committee shall be two, one of whom should be the Committee Chairman, unless he is unable to attend due to exceptional circumstances. In such a case, the present members select one of them to chair the meeting.

Voting rights

All decisions of the Committee will be based on a simple majority of the members present at the meeting. In the event of a tie, the Committee Chairman or in his absence, the acting chairman will have the casting vote.

No Committee member shall vote or participate in a determination of any matter in which the member shall or may receive a special private gain. Committee members have a duty of loyalty that precludes them from being influenced by motives other than the accomplishment of the purposes of the Committee.

Any attendee who is not a member of the Committee will not vote on any matter coming before the committee for a vote.

Resolution by Circulation: Resolutions may be made by circulation of proposal/ matter for approval. Further, all members should receive and sign the resolution whether they approve,

dis-approve or abstain. Resolutions by circulation must be with consensus of the whole committee members.

Objective

The purpose of the Committee is to:

1. Recommend Human Resources policies and procedures
2. Suggest the remuneration policy of the senior executives whose appointment requires the Board approval.
3. Insure the full compliance with the corporate policy and to up dated it as the instructions of the CBB.

Responsibilities of the Committee

1. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities, powers, authorities and discretion:
 - (a) The committee shall make recommendations to the board from time to time as to changes the committee believes to be desirable to the size of the board or any committee of the board
 - (b) The committee shall identify board members qualified to fill vacancies on any committee of the board and recommend to the board that such person appoint the identified person(s) to such committee; and
 - (c) Identify persons qualified to become Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the bank considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee
 - (d) to give the Board such additional assurance as it may reasonably require regarding the Human Capital policies and procedure of the Bank, particularly those governing the terms and conditions of employment, remuneration and retirement benefits which are fair and will attract and retain high caliber staff;
 - (e) to review and recommend to the Board a performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
 - (f) to review and recommend new or amended salary scale and incentive bonus for the Company and its subsidiaries which are substantial in their cost and impact on a significant proportion of employees;
 - (g) to review and recommend to the Board proposals for new or amended policies on redundancy and early retirement;
 - (h) to ensure that no executive or any of their associates is involved in deciding their own remuneration;

- (i) reviewing and recommending to the Board for adoption the design of any executive incentive plan or employee benefit program;
 - (j) to determine the remuneration policy of the Company and to make recommendations to the Board on the Company's policy and structure for all remuneration and fees of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration as the Committee may consider appropriate;
 - (k) Make recommendations to the board from time to time as to changes the committee believes to be desirable in the structure and job descriptions of the officers including the CEO, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters including integrity, technical and managerial competence, and experience;
 - (l) Overseeing succession planning and replacing key executives when necessary, and ensuring appropriate resources are available, and minimising reliance on key individuals;
 - (m) Assuring that plans are in place for orderly succession of senior management;
 - (n) Design a plan for succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy.
2. The Committee has the following specific responsibilities for those executives whose appointment requires Board approval, namely to approve;
 - (a) overall market positioning of the remuneration package;
 - (b) individual base salaries and increases;
 - (c) annual and long-term incentive/bonus arrangements;
 - (d) service contracts; and
 - (e) termination arrangements.
 3. The committee shall evaluate the CEO's and senior management's performance in light of the bank's corporate goals, agreed strategy, objectives and business plans and may consider the conventional bank licensee's performance and shareholder return relative to comparable conventional bank licensees, the value of awards to CEOs at comparable conventional bank licensees, and awards to the CEO in past years.
 4. The committee should also be responsible for retaining and overseeing outside consultants or firms for the purpose of determining approved persons' remuneration, administering remuneration plans, or related matters.
 5. The Committee shall consider factors such as overall compensation packages paid by comparable companies.

6. The Committee shall review and approve, for those executives whose appointment requires Board approval, the compensation payable in connection with any loss or termination of office or appointment and compensation arrangements relating to the dismissal or removal for misconduct to ensure that such compensation or arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise fair, reasonable, appropriate and not excessive.
7. The committee shall develop and recommend to the board corporate governance guidelines, and review those guidelines at least once a year.
8. The committee shall make recommendations to the board from time to time as to changes the committee believes to be desirable to the size of the board or any committee of the board
9. The committee shall to review periodically the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.
10. The committee shall oversee and monitor the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB; and
11. The committee shall provide the BOD with reports and recommendations based on its findings in the exercise of its functions.
12. The committee shall review periodically the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.

Committee Resources and Authority

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or search firms used to identify candidates, without seeking the approval of the board or management. The bank shall provide appropriate funding for the compensation of any such persons.

Performance Evaluation

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report may be in the form of an oral report made at any regularly scheduled board meeting.

Annexure 4

Administrative Matters of the Board Committees

1. Structure and Administrative Matters Applicable to all Committees Of The Board Of Directors

The Board of Directors has constituted various Committees to assist it in the discharge of its functions. Presently, the Board Committees are: Audit Committee, Remuneration and Nomination Committee and Corporate Governance Committee.

These Committees will, unless specified otherwise have a common structure and administrative procedure for handling meetings as mentioned below.

2. Meetings

i) Method of Decision-making/ Frequency:

Meetings: Each Committee will usually make its decisions by meeting, which will be at least once a quarter and at other times at the discretion of the Chairperson. Decisions at meetings are normally by consensus of members, but may be made by simple majority.

Resolution by Circulation: Resolutions may be made by circulation of proposal/ matter for approval. Further, all members should receive and sign the resolution whether they approve, dis-approve or abstain. Resolutions by circulation must be with consensus of the whole committee members.

The meeting can be conducted through teleconferencing if so required.

ii) Notice/ Agenda:

Meetings shall be convened by the Chairman of the Committee, with such notices being sent out by the Secretary of the Committee. Agenda items are decided by the Chairman of the Committee.

iii) Papers:

Agenda items/proposals and relevant papers are usually expected to be forwarded to the Secretary of the Committee at least 3 working days in advance of the meeting date and at least 1 working day in advance, in case of urgent issues which may come up unexpectedly (to be minimized).

iv) Minutes:

- a). Secretary/ Minutes: The Company Secretary will act as the Committee's secretary, and keep the minutes of each meeting. These are to be prepared promptly after each meeting and circulated to all members of the Committee for their sign-off.
- b) Confirmation of Minutes: The confirmed minutes will, immediately after confirmation of the minutes by the Committee members (i.e after sign off by the committee members), be circulated to all the members of the Board of Directors.
- c) Notification to next Committee/Board meeting: Where any decision/ resolution has been made by circulation, the contents/ outcome of the same must be informed to the Board of Directors meeting held after the date of such resolution/ decision, and should also be tabled at the next Committee meeting held after such resolution/decision.
- d) Notification to Relevant Persons: All Committee resolutions/decisions (whether at a meeting or by circulation) will be notified by the Secretary to the relevant persons for action and the progress on actions reported at subsequent meetings.

3. Membership

The members of each Committee will be appointed by the Board, and will continue to hold the membership of the Committee until the term of the Board expires or a fresh appointment is made by the Board in the interim.

4. Quorum

Each Committee will comprise of 3 members, of which one should be the Chairperson. The Committee in its first meeting can select Vice-Chairperson. A quorum comprises of majority members, of which one should be the Chairperson. In the absence of the Chairperson, the Vice-Chairperson will be presiding Chairperson for the meeting. These are common to all Board Committees and are as set out separately except that in the event that an Independent Expert is appointed as the third member of a Committee the Independent Expert will not be counted for quorum or have voting rights.

Attendance:

Individual board members should attend at least 75% of all board meetings in a given year to enable the board to discharge its responsibilities effectively. Attendance proxies for board meeting are prohibited at all times.

Participation in board meetings by means of video or telephone conferencing is regarded as attendance and may be recorded as such.

5. Performance Evaluation

At least once a year, the Committees shall review its own performance and Charter to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Annexure 5

The Formal Board Charter

All directors must understand the board's role and responsibilities under the Commercial Companies Law, Ebdaa Bank Corporate Governance Policy and any other laws or regulations that may govern their responsibilities from time to time. In particular:

- (a) The board's role as distinct from the role of the officers; and
- (b) The board's fiduciary duties of care and loyalty to the bank

The board's role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy (b) Causing financial statements to be prepared which accurately disclose the bank's financial position;
- (c) Monitoring management performance;
- (d) Monitoring conflicts of interest and preventing abusive related party transactions;
- (e) Assuring equitable treatment of shareholders including minority shareholders; and
- (f) Establishing the objectives of the bank.

However, as a minimum, the Board must establish and maintain a statement of its responsibilities for:

- a) The adoption and annual review of strategy;
- b) The adoption and review of management structure and responsibilities;
- c) The adoption and review of the systems and controls framework; and
- d) Monitoring the implementation of strategy by management.

The directors are responsible both individually and collectively for performing the responsibilities outlined above. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

In its strategy review process the Board must:

- a) Review the bank's business plans and the inherent level of risk in these plans;
- b) Assess the adequacy of capital to support the business risks of the bank;

- c) Set performance objectives; and
- d) Oversee major capital expenditures, divestitures and acquisitions.

The Bank must notify the CBB in writing of all major proposed changes to the strategy and/or corporate plan of the bank prior to implementation.

The Board is expected to have effective policies and processes in place for:

- a) Approving budgets and reviewing performance against those budgets and key performance indicators; and
- b) The management of the bank's compliance risk.

When a new director is inducted, the chairman of the board, assisted by the bank's legal counsel or compliance officer, should review the board's role and duties with that person, particularly covering legal and regulatory requirements and Corporate Governance section of the CBB rulebook (HC module).

The board must ensure by way of formal procedures that individual directors have access to independent legal or other professional advice at the conventional bank licensee's expense whenever they judge this necessary to discharge their responsibilities as directors and this must be in accordance with the bank's policy approved by the board.

Each individual director must also have access to the bank's corporate secretary, who must have responsibility for reporting to the board on board procedures. Both the appointment and removal of the corporate secretary must be a matter for the board as a whole, not for the CEO or any other officer.

The bank must have a written appointment agreement with each director which recites the directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

Annexure 6

Policy of Conflict of Interest

The policy is established to be distributed to board members and management, this policy is for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies.

As per CBB requirements, any decisions to enter into transactions, under which approved persons would have conflicts of interest that are material, should be formally and unanimously approved by the full Board. Best practice would dictate that an approved person must:

- a) Not enter into competition with the bank;
- b) Not demand or accept substantial gifts from the bank for himself or his associates;
- c) Not misuse the bank's assets;
- d) Not use the bank licensee's privileged, information or take advantage of business opportunities to which the bank licensee is entitled, for himself or his associates; and
- e) Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.

Each approved person must inform the entire board of conflicts of interest in their activities with, and commitments to other organisations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. The approved persons must understand that any approval of a conflicted transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision.

In any case, all approved persons must declare in writing all of their other interests in other enterprises or activities to the Board on an annual basis.

Annexure 7

Corporate Governance Code Principles

Principle One: The company must be headed by an effective, collegial and informed board.

Principle Two: The directors and officers shall have full loyalty to the company.

Principle Three: The board shall have rigorous controls for financial audit, internal control and compliance with law.

Principle Four: The company shall have rigorous procedures for appointment, training and evaluation of the board.

Principle Five: The company shall remunerate directors and officers fairly and responsibly.

Principle Six: The Board shall establish clear and efficient management structure.

Principle Seven: The Board shall communicate with shareholders and encourage their participation.

Principle Eight: The company shall disclose its corporate governance.

Principle Nine: Companies which refer to themselves as “Islamic” must follow the principles of Islamic Sharia.